Commonwealth of Massachusetts
Department of Telecommunications and Energy (DTE)
Default Service Procurement Comments - Docket Number D.T.E. 04-115

➢ Introduction

Serving the deregulated retail electric industry as a licensed energy consultant and broker, I must admit that my response to this "Request for Comments" could be biased based on the innate fact that my company produces revenue when advantageous market conditions exist. These advantageous market conditions include, but are not limited to the following: high utility default rates, straightforward customer switching rules and procedures, complicated and volatile utility default pricing, and lower market pricing which creates headroom and potential for customer cost savings opportunities. My responses in regards to Docket Number D.T.E. 04-115 will attempt to discuss the advantages and disadvantages of each side of the questions based on the two main goals of electric deregulation.

1. Goal One: Providing customers the lowest prices and managing cost in the marketplace.
2. Goal Two: Encourage competition in the retail electric market to provide customers with the choice of their electric supplier.

Based on the fiduciary duty of the DTE to the people of the state of Massachusetts, it is my belief that the first goal should be considered first and foremost within the heart of this process.

➢ Questions

1. Although smaller customers may be better served if power supply for default service is procured using a portfolio of more two solicitations, there should be additional provisions built into the procurement of the default service supply procedure. Two main suggestions are: To maintain the current level of solicitations, however, include a provision which would allow the DTE or LDC to allow a third solicitation at any time if the wholesale market pricing has decreased to a level whereby the total overall cost (to the retail customer) has decreased by 5% (obviously, this percentage decrease would have to be determined and the 5% is merely for illustrative purposes) compared to the current 6-month level. This would incentivize the DTE and LDC to monitor the wholesale markets and take advantage of market decreases as opposed to conducting the RFP process at specific times (also coupled with a replacement for the RFP process as discussed in question 4 below). This approach may prove to support three solicitations in one year and only one the next (obviously depending on contract length). The apparent disadvantages for increasing the solicitations are the increase in time, paperwork, and resources for the DTE, local distribution companies (LDC), and the wholesale suppliers which are bidding on the service. The change in procedure may also cause hardship for customers who may not understand the market rules and may be hesitant to take action (although educational tools and brochures may be made available as a resource to customers). The major market advantage is that the default service would provide a more accurate representation of the market and the processes

would be put into place to ensure retail customers are paying a reasonable market rate with the DTE and LDCs managing some risk of behalf of the customers.

2. a. Smaller customers may be better served if power supply for default service was procured for a term longer than twelve months if it proves to lower the overall cost which is paid by the retail customer. The market will determine if the 18 or 24-month cost curves are more attractive than the 12-month forward cost curve. Options should be available for locking in longer term contracts provided there are provisions to prohibit a similar situation experienced by customers in California. In this situation, former Governor Gray Davis locked into long term electric supply contracts when the market was at very high point. Although most people truly believe that Davis had the best interests of customers in mind and was attempting to provide stability to the market by fixed pricing for customers, one must simply observe the cost per kWh (in some cases as much as $0.18 per kWh) to realize this action was not in the best interest of the customers in California. Provisions would need to be included which precluded locking into longer term contracts in a rising market and would allow locking into longer contracts in falling markets. Metrics must be identified in the law which allows long-term price fixing if the retail cost customers will pay would be decreased by doing so (again, by using a percentage as a barometer).

   b. Price fixing for longer periods would provide customers with more timely information surrounding price certainty. Not only would this information be available for longer periods in the future, but additional time would be available in the release of the numbers. Using a similar strategy as outlined in response “a” above would move toward taking advantage of increased market efficiencies.

c. In addressing the attempt to encourage migration to competitive supply, a “penalty” factor could be assessed to customers which remain on default service. Although this “penalty” would not need to be as harsh as the New Jersey BGS “adder” for customers over 750 KW, it would result in customers moving to alternative supply sources. This “penalty” could be put into a state monitored and administrated fund which could be administered to low-income customers, energy efficiency projects, research, and rebates, subsidies for green energy providers, or additional energy related programs. In addition, information concerning specific supplier offers could be included on the DTE website.

3. Although there may be some small benefit in aggregating the state’s load for smaller customers, it is my belief statewide procurement would not benefit smaller customers. Additional problems may arise in terms of administering the program (LDCs would be required to give up control of this function) and instead the responsibility would be placed in the hands of a designated agency. This would necessitate financial and human resources to conduct the rules and procedures in which the cost would ultimately be born by the retail customers. The supply function of the LDCs has been managed internally by many of these LDCs since inception and repositioning this function in the hands of an outside committee would not benefit smaller customers. In addition to the logistical and loss of control issues for the LDCs, there are various components of the electric supply cost which may be vastly different by region; there would have to be normalization of different congestion zones, normalization of uplift costs, accurate evaluation of reserve services charges, proper assessment of line losses and capacity charges which all vary by geographic and demographic density

throughout the state. This effort would undoubtedly require too much time and too many resources and may vary well leave some LDCs or customers feeling as though they did not benefit from the process as much as other customers.

4. A reserve auction process would likely produce lower default service prices for the smaller customers of Massachusetts. The ability of buyers and sellers to engage in a real-time process would eliminate some inefficiencies associated with a formal RFP process. The risk tolerances included in supplier pricing could be eradicated based on eliminating the requirement to "hold" an offer open for an extended time period. This approach would be successful if the proper set-up initiatives were handled in a proactive manner. This process would have to include, but would not be limited to the following activities: pre-qualifying the potential suppliers before the auction (including all contractual language), establish the predefined MW blocks of energy which would be bid on and sold, establish an electronic medium to handle the transactions, obtain the ability of suppliers to bid and participate in the reverse auctions on short notice (I.e. when market decreases occur).
5. Although I do not believe that the term "default service" is confusing, I can imagine how some customers may be confused. There are other alternatives which may be used in attempts to provide customers with more clarity surrounding a label for this service.
   - Following the lead of New Jersey – **Basic Generation Service**
   - Emulating the Texas model - POLR – **Provider of Last Resort**
   - Similar to the Power Purchase Option (PPO) in Illinois – **Current Market Power (CMP) option.**

- **Common Service** (the name may be unappealing to some customers because they do not want to be considered "common" and this may provoke some customers to begin looking into alternative supply options).

These comments are respectfully submitted by David C. Wiers, a partner in the firm of Power Brokers, based in Dallas, Texas.